

**ANNUAL USE OF CAPITAL SURVEY - 2009****NAME OF INSTITUTION**

(Include Holding Company Where Applicable)

Severn Bancorp, Inc. and Severn Savings Bank, FSB

Person to be contacted regarding this report:	Thomas G. Bevivino
CPP Funds Received:	\$23,393,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	11/21/2008
Date Repaid <sup>1</sup> :	

RSSD: (For Bank Holding Companies)	3831465
Holding Company Docket Number: (For Thrift Holding Companies)	H1799
FDIC Certificate Number: (For Depository Institutions)	32367
City:	Annapolis
State:	Maryland

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

*American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.*

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	Severn Savings Bank, FSB ("Severn") was able to maintain lending programs primarily to qualified residential borrowers and small businesses in part from the added capital from the CPP. Severn originated and funded over \$129 million of mortgage loans, during the year ended December 31, 2009.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Severn's loan portfolio declined to approximately \$819 million at December 31, 2009, primarily due to the effects of the economic recession, however, Severn did actively lend in 2009 to qualified residential borrowers and businesses in its market area.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	
<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Severn increased its loan loss reserves by over \$31 million in 2009 as a result of the economic recession. The increased capital received from the CPP in 2008 helped offset the effect of the increase in loan loss reserves in 2009.

<input checked="" type="checkbox"/>	Reduce borrowings	Severn was able to decrease its borrowings from the Federal Home Loan Bank by \$28 million in 2009 in part due to funds received from the CPP in 2008.
<input checked="" type="checkbox"/>	Increase charge-offs	As a result of the economic recession, Severn had loan charge-offs of over \$15 million during the year ended December 31, 2009. The increased capital received from the CPP in 2008 helped offset the effect of the loan charge-offs incurred in 2009.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Severn's capital position was not impacted from the CPP in 2009; however, Severn's capital position was improved when it received the CPP funding in 2008. Severn's Tier 1 capital ratio was 14.4% at December 31, 2009.

What actions were you able to avoid because of the capital infusion of CPP funds?

Severn was able to maintain its "well capitalized" capital status by participating in the CPP in 2008. By doing this, Severn's capital exceeded regulatory requirements for a "well capitalized" bank throughout 2009 and was able to avoid any need to raise additional capital. Severn's Tier 1 capital ratio was 14.4% at December 31, 2009.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Due in part to the increased capital from participating in the CPP, Severn was able to expand its business relationship banking department by increasing business products and services. In addition, Severn was able to increase its offerings to business and consumers, including additional commercial lending products, and an expanded line of consumer deposit products. Where appropriate, Severn was also able to work with distressed borrowers and modify existing loan terms to assist borrowers who were no longer capable of paying their loans, but who demonstrated the desire and capability to pay under modified loan terms.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

None noted.